

Surprise on Margin Front; Maintain BUY

Asian Paints delivered a strong set of numbers in Q4FY22 with revenue up ~21% YoY to Rs 7,893 Cr, led by a combination of volume growth (up 8%) and price mix. The company surprised on the EBITDA margins front which was far better than our and street estimates despite the prevailing high inflationary environment. EBITDA margin stood at 18.3%, a decline of only ~150bps YoY (vs our estimates of ~410bps decline) on account of lower ad-spends and cost rationalisation, other expenses grew a mere 1% YoY. Raw material inflation across the RM basket resulted in a decline in gross margins by ~450bps YoY to 38.7%. The management has indicated it expects volatility in the raw material prices to continue in the near term and it sees overall inflation of 5-7% in Q1FY23. Adjusted PAT (ex Exceptional item) was up ~13% YoY.

Q4FY22 started on a lighter note on account of subdued demand in Jan'22 on account of COVID 3.0 induced lockdowns. However, Feb'22 and Mar'22 witnessed strong double-digit growth led by NPД (~14% of sales), distribution expansion, and strong institutional sales. The management further alluded to strong growth across Tier1/2/3/4 cities with Tier1/2 cities seeing double-digit growth, led by the Luxury and Premium segment while that Tier 3/4 towns saw double-digit growth in the Economy range. The management remains upbeat on the sustenance of demand with a double-digit growth outlook for FY23 on the back of a recovery in Tier 3/4, urban centres, expanding distribution footprint (added 60,000 retail points in the last 8-9 quarters), normal monsoon, and an uptick in Home improvement, and projects business.

Key Concall Takeaways

- Home Improvement:** Asian Paints is present across – Kitchen (Sleek), Bath (Ess Ess), Flooring, Furnishings, Doors & Windows (Weatherseal), and Lighting (White Teak) through its 29 Beautiful Home stores. APNT plans to open ~40 new stores in FY23. For Sleek and Ess Ess, the management expects both businesses to report profit growth in FY23. In FY22, Home Décor was ~4% of decorative business and the management targets ~8-10% of decoratives business by FY26, including home services.
- NPД:** In Q4FY22, APNT launched Super Economy Emulsion paints – Tractor/Ace Sparc Range to target lower end emulsion customers which use unorganised paints. Moreover, it launched industry-first innovative products under paints, waterproofing, and wood finish such as - ALLProtek Fire Retardant Paint (resist spreading of fire), Royal Glitz paints (Anti Crack), SmartCare HydroLoc (converts moisture into a crystal), and AP Woodtech Ingenio.
- RM Inflation remains volatile; worst of margin decline behind us:** Steep inflationary trend persists and ~25% YoY hike in key RMs- crude derivatives or other industrial chemicals impacted Gross Margins and EBITDA Margins for APNT. ANPT has taken cumulative price hikes of ~24% YTD basis and 15% in the International business to protect margins from RM inflation. The management reiterated that it expects further ~5-7% RM inflation in Q1FY23. However, it will mitigate through better sourcing and cost savings programs and if required, it will take calibrated price hike as well. It expects Gross Margins/EBITDA margins to be in the range of ~40-42%/18-20% in FY23. In FY23, the full benefit of price increases will be reflected alongside cost optimization measures.
- International Business:** International business grew by ~12% YoY to Rs 818 Cr in Q4FY22 led by strong growth in Asia. However, sharp raw material inflation and currency devaluation in Sri Lanka, Ethiopia, and Egypt has impacted overall profitability.
- Dealer Network:** APNT added 15,000 retail touchpoints in Q4FY22, taking its overall presence to 145,000 retail touchpoints.

We are impressed with the overall performance in Q4FY22 despite the challenging environment of weak consumer sentiments and inflation across the raw material basket. The management continues to focus on its execution capabilities towards increasing distribution reach, launching breakthrough innovative products, and expanding the Home Décor portfolio. However, the near-term challenge still persists and we would wait to see if the visibility of the near term performance sustains before we change our rating to BUY. We continue to maintain our HOLD rating with an unchanged TP of Rs 3,200 (57x FY24E EPS).

Key Financials (Consolidated)

(Rs Cr)	FY21	FY22E	FY23E	FY24E
Net Sales	21,713	29,101	35,386	39,997
EBITDA	4,856	4,804	6,689	7,920
Net Profit	3,139	3,146	4,484	5,354
EPS (Rs)	32.7	32.8	46.7	55.8
PER (x)	94.3	94.1	66.0	55.3
EV/EBITDA (x)	60.9	61.5	44.0	36.8
P/BV (x)	23.1	21.3	18.5	15.8
ROE (%)	24.5	22.6	28.0	28.5

Source: Company, Axis Research

(CMP as of 10 May, 2022)

CMP (Rs)	3,083
Upside /(Downside (%))	(-4%)
High/Low (Rs)	3,588/2,521
Market cap (Cr)	2,95,788
Avg. daily vol. (6m) Shrs.	6,70,281
No. of shares (Cr)	95.9

Shareholding (%)

	Sep-21	Dec-21	Mar-22
Promoter	52.8	52.6	52.6
FIs	21.0	20.5	19.5
MFs / UTI	2.9	3.0	3.2
Banks / FIs	0.1	0.0	0.1
Others	23.3	23.9	24.7

Financial & Valuations

Y/E Mar (Rs. bn)	2022E	2023E	2024E
Net Sales	291	354	400
EBITDA	48	67	79
Net Profit	31	45	54
EPS (Rs.)	33	47	56
PER (x)	94	66	55
EV/EBITDA (x)	62	44	37
P/BV (x)	21	18	16
ROE (%)	23	28	29

Change in Estimates (%)

Y/E Mar	FY23E	FY24E
EBITDA	0.1%	-0.3%
PAT	0.1%	-0.3%

ESG disclosure Score**

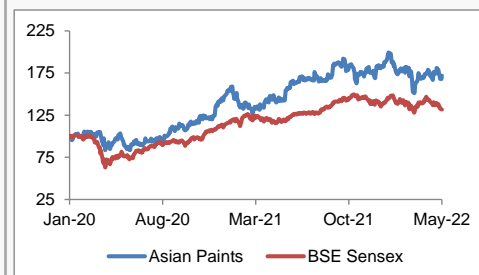
Particulars	Score
Environmental	27.1
Social	43.9
Governance	53.6

Total ESG Disclosure Score37.2

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2020 disclosures

Relative Performance



Source: Company, Axis Research

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Q4FY22 Financial (Consolidated)

(Rs Cr)	Q4FY22	Axis Sec Est	Axis Sec Var (%)	Q3FY22	QoQ growth %	Q4FY21	YoY growth %
Domestic Deco Volume Growth (%)	8%	4	-392 bps	18%	-10 bps	48%	-40 bps
Sales	7,893	8,320	(5.1)	8,527	(7)	6,651	18.7
Gross Profits	3,055	3,218	(5.1)	3,134	(3)	2,872	6.4
Gross Margin (%)	38.7	38.7	3 bps	36.8	195 bps	43.2	-448 bps
Staff costs	457	474	(3.5)	456	0	412	11.0
Other operating expenses	1,154	1,439	(19.8)	1,136	2	1,142	1.1
EBITDA	1,443	1,305	10.6	1,542	(6)	1,318	9.5
EBITDA margin (%)	18.3	15.7	260 bps	18.1	20 bps	19.8	-153 bps
Depreciation	205	212	(3.2)	208	(1)	213	(3.9)
Interest	23	28	(19.2)	27	(18)	30	(24.2)
Other Income	80	88	(9.0)	72	12	75	6.6
PBT	1,296	1,154	12.3	1,379	(6)	1,150	12.6
Provision for Tax	315	302	4.5	362	(13)	286	10.0
Tax rate (%)	24.3	26.2	-184 bps	26.3	-197 bps	24.9	-58 bps
Reported PAT	874	851	2.7	1,031	(15)	870	0.5
EPS (Rs.)	8.9	8.9	(0.0)	10.6	(16)	8.9	(0.2)

	Q4FY22	Axis Sec Est	Axis Sec Var (%)	Q3FY22	QoQ growth %	Q4FY21	YoY growth %
Profitability Analysis (%)							
Gross Margin	38.7	38.7	3 bps	36.8	195 bps	43.2	-448 bps
EBITDA Margin	18.3	15.7	260 bps	18.1	20 bps	19.8	-153 bps
PAT Margin	11.1	10.2	84 bps	12.1	-102 bps	13.1	-200 bps
Cost Analysis (%)							
COGS	61.3	61.3	0 bps	63.2	-195 bps	56.8	448 bps
Staff Expenses	5.8	5.7	9 bps	5.3	45 bps	6.2	-40 bps
Other Expenses	14.6	17.3	-268 bps	13.3	130 bps	17.2	-254 bps
Tax Rate	24.3	26.2	-184 bps	26.3	-197 bps	24.9	-58 bps

Source: Company; Axis Securities

Q3FY22 Segmental Performance (Consolidated)

(Rs Cr)	Q4FY22	Q3FY22	QoQ growth %	Q4FY21	YoY growth %
Segmental Revenues					
Decorative Paints	7,664	8,319	-7.9	6,467	18.5
Home Improvement	232	209	11.0	186	25.0
Segmental EBIT					
Decorative Paints	1,274	1,449	-12.1	1,230	3.6
Home Improvement	-2	1	-261.0	-2	50.3
Segmental Margins (%)					
Decorative Paints	17	17	-79 bps	19	-239 bps
Home Improvement	(1.0)	0.7	-165 bps	(0.8)	-16 bps

Source: Company; Axis Securities

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E Mar, Rs Cr	FY21	FY22E	FY23E	FY24E
Net sales	21,713	29,101	35,386	39,997
Growth, %	7.4	34.0	21.6	13.0
Total income	21,713	29,101	35,386	39,997
Raw material expenses	-12,097	-18,301	-21,229	-23,776
Employee expenses	-1,541	-1,787	-2,108	-2,382
Other Operating expenses	-3,219	-4,210	-5,360	-5,919
EBITDA (Core)	4,856	4,804	6,689	7,920
Growth, %	16.7	(1.1)	39.2	18.4
Margin, %	22.4	16.5	18.9	19.8
Depreciation	-791	-816	-967	-1,055
EBIT	4,064	3,987	5,722	6,865
Growth, %	20.2	(1.9)	43.5	20.0
Margin, %	18.7	13.7	16.2	17.2
Interest paid	-92	-95	-99	-103
Pre-tax profit	4,304	4,188	6,057	7,220
Tax provided	-1,098	-1,103	-1,518	-1,812
Net Profit	3,139	3,031	4,484	5,354
Growth, %	15.8	0.2	42.5	19.4
Net Profit (adjusted)	314	315	448	535
Unadj. shares (Cr)	96	96	96	96
EPS (Rs)	33	33	47	56

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

As of 31st Mar, Rs Cr	FY21	FY22E	FY23E	FY24E
Cash & bank	611	916	2,331	4,742
Debtors	2,605	2,870	3,490	3,945
Inventory	3,799	4,704	5,720	6,465
Loans & advances	79	79	79	79
Other current assets	2,483	2,483	2,483	2,483
Total current assets	9,577	11,053	14,104	17,715
Investments	4,737	4,768	4,800	4,832
Net fixed assets	6,042	6,025	5,858	5,603
Total assets	20,355	21,847	24,762	28,149
Current liabilities	63,847	65,938	73,686	79,371
Total current liabilities	63,847	65,938	73,686	79,371
Non-current liabilities	742	857	857	857
Total liabilities	7,126	7,451	8,226	8,794
Paid-up capital	96	96	96	96
Reserves & surplus	12,710	13,823	15,909	18,673
Shareholders' equity	13,229	14,396	16,536	19,355
Total equity & liabilities	20,355	21,847	24,762	28,149

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E Mar (Rs Cr)	FY21	FY22E	FY23E	FY24E
Pre-tax profit	4,304	4,188	6,057	7,220
Depreciation	791	816	967	1,055
Change in working capital	-495	-846	-861	-632
Total tax paid	-1,123	-1,103	-1,518	-1,812
Other operating activities	3,477	3,055	4,645	5,832
Cash flow from operating activities	-420	-800	-800	-800
Capital expenditure	-2,718	-32	-32	-32
Change in investments	-3,110	-800	-800	-800
Cash flow from investing activities	368	2,255	3,845	5,032
Free cash flow	7	0	0	0
Equity raised/(repaid)	0	0	0	0
Dividend (incl. tax)	-1,712	-1,918	-2,398	-2,590
Cash flow from financing activities	-1,753	-1,918	-2,398	-2,590
Net change in cash	-1,386	337	1,447	2,442
Opening cash balance	783	611	916	2,331
Closing cash balance	611	916	2,331	4,742

Source: Company, Axis Securities

Ratio Analysis

(%)

Y/E Mar	FY21	FY22E	FY23E	FY24E
Per Share data				
EPS (INR)	32.7	32.8	46.7	55.8
FDEPS (INR)	32.7	32.8	46.7	55.8
CEPS (INR)	41.0	42.5	56.8	66.8
CFPS (INR)	32.8	27.6	43.9	56.0
DPS (INR)	17.9	20.0	25.0	27.0
Return ratios				
Return on assets (%)	18.1	15.1	19.9	20.8
Return on equity (%)	24.5	22.6	28.0	28.5
Return on capital employed (%)	26.1	21.8	28.4	29.3
Turnover ratios				
Asset turnover (x)	2.5	3.2	3.6	3.9
Sales/Total assets (x)	1.2	1.4	1.5	1.5
Sales/Net FA (x)	3.5	4.8	6.0	7.0
Working capital/Sales (x)	0.1	0.1	0.1	0.1
Liquidity ratios				
Current ratio (x)	1.5	1.7	1.9	2.2
Quick ratio (x)	0.9	1.0	1.1	1.4
Interest cover (x)	44.4	41.8	57.7	66.5
Net debt/Equity (%)	(2.1)	(4.1)	(12.4)	(23.5)
Valuation				
PER (x)	94.3	94.1	66.0	55.3
Price/Book (x)	23.1	21.3	18.5	15.8
EV/Net sales (x)	13.6	10.2	8.3	7.3
EV/EBITDA (x)	60.9	61.5	44.0	36.8
EV/EBIT (x)	72.8	74.1	51.4	42.5

Source: Company, Axis Securities

Asian Paints Price Chart and Recommendation History



Date	Reco	TP	Research
30-Jan-20	HOLD	1,890	Result Update
25-Jun-20	HOLD	1,796	Result Update
27-Jul-20	HOLD	1,796	Company Update
23-Oct-20	BUY	2,300	Result Update
22-Jan-21	HOLD	2,665	Result Update
13-May-21	BUY	2,810	Result Update
20-Jul-21	BUY	3,510	Result Update
22-Oct-21	BUY	3,300	Result Update
21-Jan-22	HOLD	3,200	Result Update
11-May-22	HOLD	3,200	Result Update

Source: Axis Securities

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